

Key Characteristics of Monroe County

Location & History

Monroe County and its principal city, Rochester, are located in western New York State where the Genesee River meets the south shore of Lake Ontario, approximately 70 miles east of the Buffalo/Niagara Falls area. With its headwaters in the uplands of northern Pennsylvania, the Genesee River drops in elevation almost 300 feet as it flows through Rochester, creating rapids and waterfalls. As early as the 1790s the Genesee was harnessed by settlers to power grist mills and saw mills. The fertile land of the Genesee River valley combined with hydropower to create a vibrant agricultural and grain processing economy by the early 1800s. Monroe County

| Monroe County Land Use | |
|------------------------|---------------------|
| Total Land Area | 663 sq miles |
| Residential | 33% |
| Commercial/Industrial | 7% |
| Governmental | 6% |
| Agricultural | 29% |
| Undeveloped | 23% |
| Open Space | 2% |
| Total Land Area | 663 sq miles |

Source: Monroe County Planning & Development

was part of Albany County when the original twelve counties of New York were established in 1683. Albany County contained all of what is now the State of Vermont and, in theory, extended westward to the Pacific Ocean. Monroe County was created in its present borders from portions of what had become Genesee and Ontario counties in 1821.

The “midwest” region of New York State dominated wheat production in this period. Monroe County’s climate, moderated by Lake Ontario, was found to be ideal for growing other types of produce, such as celery,

cantaloupes, lettuce, apples, pears, and grapes. Improved roads increased commerce to Rochester and its fruit and vegetable products became noted all across the Eastern United States.

| Monroe County Population | |
|--------------------------|---------|
| 1830 | 49,855 |
| 1850 | 87,650 |
| 1870 | 117,868 |
| 1890 | 189,586 |
| 1910 | 283,212 |
| 1930 | 423,881 |
| 1950 | 487,632 |
| 1970 | 711,917 |
| 1980 | 702,238 |
| 1990 | 713,968 |
| 2000 | 735,343 |
| 2002 | 738,422 |

Source: NYS Data Center

Construction of the Erie Canal from 1817 to 1823 led to explosive development of the Rochester/Monroe County area. Farmers and grain processors in the Genesee valley gained low-cost access to markets in New York City. With completion of the canal to the Lake Erie port of Buffalo in 1825, producers secured low-cost access to growing western markets. Monroe County’s future as a major population center was assured. Rochester grew rapidly, adding 75% to its population between 1830 and 1850.

The Erie Canal remains one of the most successful public works projects of all time – an example of the stimulus to economic development of bold and creative public works infrastructure projects. Monroe County as we know it today is a legacy of the great canal. The names of many of Monroe County’s communities—Wheatland, Brockport, Fairport, and Spencerport, for example—reflect the region’s history as an agricultural center on the Erie Canal. The use of “Flour City” and later, “Flower City,” for Rochester also capture important elements of local economic history.

The Growth of Monroe County Industry

The Civil War spurred the industrial growth of New York State, including both Rochester and Buffalo. While an explosion of rail construction during the 1850s and 1860s diminished the economic value of the Erie Canal, both Rochester and Buffalo became major stops on these new transportation corridors.

George Eastman's inventions of the late 19th century resulted in the formation of the Eastman Kodak Company in Rochester. By the early 20th century, Kodak had become a key engine of growth in Rochester with peak employment of over 60,000 in 1982. Entrepreneurs of the same era founded other companies with continued name recognition—Bausch & Lomb, the Gannett Company and Hickey-Freeman, as examples. Another Rochester success story was the Haloid Corporation. Chester Carlson's invention of xerography put the renamed Xerox Corporation at the forefront of innovation. Although Xerox moved its corporate headquarters to Stamford, Connecticut in 1978, the document company still employs about 10,000 locally.

Today Monroe County has a population of about 740,000 and a vibrant local economy with significant employment in emerging technology sectors. Instead of shipping flour and nursery stock to the East Coast of the U.S., Monroe County companies sell a diversity of sophisticated products and services to customers around the world. The nine-county Rochester area is home to more than 4,000 exporting companies. More than 580 of those companies became "first-time exporters" during the past seven years (Rochester Business Alliance, International Business Council).

Economic Profile of Monroe County

The dominant feature of Rochester's economy during the previous 20 years has been the creative destruction of traditional sources of income and the birth of new firms and industries. Until the last decade, Rochester was dominated by major manufacturers—particularly Kodak—employing highly skilled production workers, thousands of key scientists and technicians in research and development positions and many headquarters staff. As these companies restructured, the workers who left their employers have fueled the growth of numerous small and medium sized firms in a range of industries. In 1980, only 57% of employment was located in firms of 1000 employees or less—and most of these firms had direct or indirect linkages to major Rochester firms like Kodak, Xerox or General Motors. By 2000, the share of employment in small and medium-sized firms had risen to 89% (CGR estimates from *County Business Patterns* data).

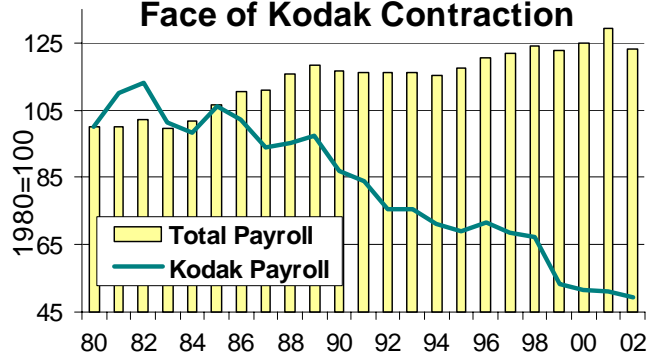
| Major Private Employers | Employees (FT) |
|---|----------------|
| Eastman Kodak | 22,000 |
| U of Rochester/Strong Health | 13,000 |
| Xerox | 10,050 |
| Wegmans Food Markets | 5,647 |
| ViaHealth | 4,404 |
| Lifetime Healthcare | 2,932 |
| Unity Health | 2,931 |
| Rochester Institute of Technology | 2,712 |
| Delphi | 2,500 |
| Frontier | 2,300 |
| Rochester Gas & Electric (div of Energy East) | 1,912 |
| Paychex | 1,847 |
| Valeo Electrical Systems | 1,811 |
| The Sutherland Group | 1,500 |
| JP Morgan Chase | 1,340 |

Eastman Kodak, Xerox, Bausch & Lomb, Delphi (formerly a division of General Motors) and Valeo Electrical Systems (another former GM division) are still important to the Monroe County economy. Yet the regional economy's future lies with fast-growing small and medium-sized firms, such as high technology manufacturers like Harris R.F. Communications, Apogent Technologies, and Hover-Davis; telecommunications firms like Choice One and PAETEC; and information sector firms like Paychex, Harris Interactive, The Sutherland Group and Western NY Computing Systems.

Rochester's higher education sector, particularly expansion at the University of Rochester's Medical Center (URMC), also holds significant promise for the future. Rochester's higher education sector is responsible for a payroll of over \$800 million annually.

Source: Rochester Business Journal, April 2003

Overall Economy Grows in Face of Kodak Contraction



Kodak's Role in the Economy

Kodak's steady employment growth from the early part of the century through 1982 plus the relative stability of Kodak product sales insulated the Rochester economy from the worst of national business cycle fluctuations, including the Great Depression and the recession of the early 1980s. At its 1982 peak, the Eastman Kodak Company directly employed almost 14% of workers in the Rochester Metropolitan Statistical Area (RMSA—Monroe, Wayne, Ontario, Livingston, Genesee and Orleans counties).

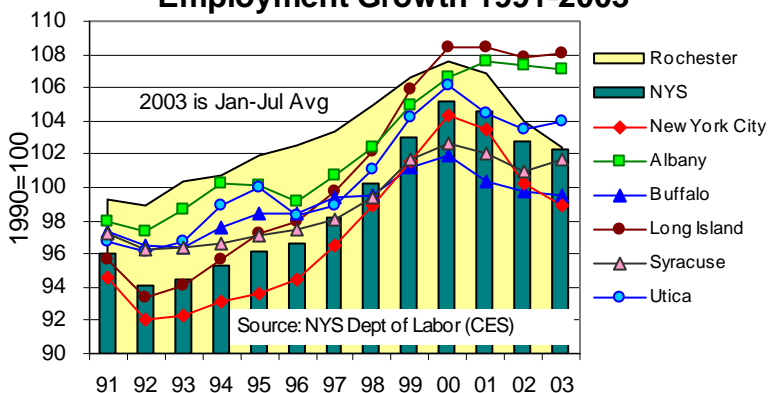
Due to Kodak's relatively high salaries, the company was responsible for 22% of the RMSA payroll. Another fifth of total MSA payroll could be attributed to suppliers of Kodak itself plus companies supported by the purchases of Kodak workers. In all, CGR estimates that Kodak was responsible for nearly half of the metropolitan economy.

Kodak's market position has changed dramatically in intervening years. Until the 1980s the company faced few competitors, particularly in the lucrative U.S. market. The quality of its products and the respect afforded its brand enabled the company to earn substantial profits. The community shared in its success. By the mid 1980s, Japanese competitor Fuji began to challenge Kodak's market position in the U.S. and across the world. Other companies such as 3M, Agfa and Konica also gained share at the expense of the market leaders. The rise of digital imaging has broadened the threat to Kodak's film business: The volume of worldwide film sales dropped 13% over the year ending 2003Q2 while digital camera sales grew 65% over the same period.

Kodak has responded to these challenges in a variety of ways, one of which has been to reduce costs. As a result of nearly continuous cost-cutting since 1982, the film giant now employs less than two-fifths of the number of workers than it did then—about 4% of the local workforce—and is responsible for about 8% of RMSA payroll (Kodak, CGR). CGR estimates that Kodak's direct and indirect share of Rochester-area income is between 15% and 19%. On September 25, 2003, the company has also announced its plans to substantially shift its emphasis to digital products—particularly in commercial markets.

As a way of financing its investment in digital products and services, Kodak has cut its traditionally-strong dividend.

Employment Growth 1991-2003

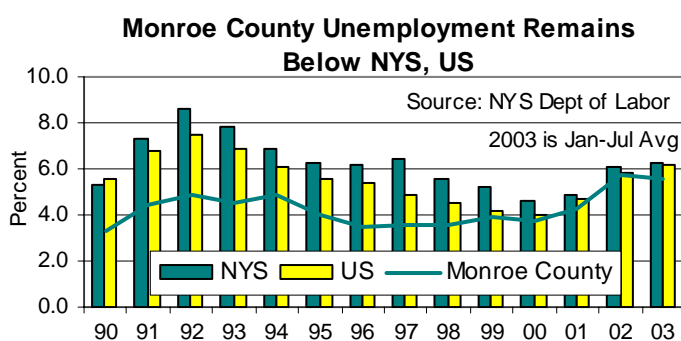


Steady Growth in Rochester Through 1990s

In most communities the rapid shrinkage of its flagship employer would force the economy into recession. This was not the case in Rochester. Despite the loss of about \$2 billion dollars in payroll (in 2001 dollars) and nearly 40,000 jobs from Kodak, the Rochester

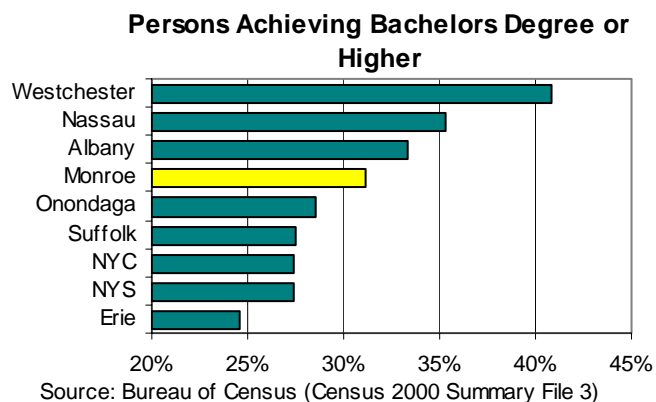
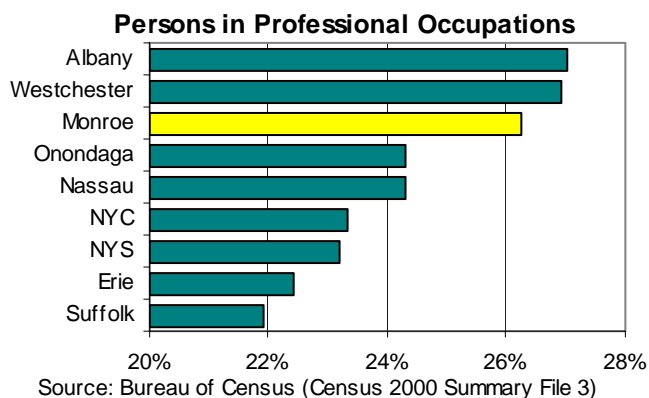
economy continued to grow through the 1990s. Annual average non-agricultural employment increased steadily from 1980 through the nationwide recession that began in 2000/2001. While New York City has received attention for its recent economic performance, NYC employment only regained 1990 employment levels late in 1999 while the Rochester area added 7% to employment rolls during the same period.

From 1980 through the first half of 2003, the Rochester metropolitan area added 109,300 net new jobs. Business service employment soared in comparison with New York State as firms like Paychex and The Sutherland Group expanded their markets and their payrolls. While the transition from a manufacturing-based economy to a more service-based economy has reduced average income in many communities, **payroll per job** has remained at Rochester's historically-high level (in constant dollar terms) as wages and salaries per job have been rising both in manufacturing *and* in the service sector (CGR analysis of NYS DOL data).



The underlying strength of the Rochester economy is reflected in its unemployment rate. Monroe County's unemployment rate averaged 4.0% during the 1990s while NYS and the nation experienced unemployment of 6.5% and 5.7%, respectively. Since 1980 (Kodak's contraction began in 1982), county unemployment has averaged 70% that of NYS. In many respects, Kodak's workforce reductions

have enabled other firms to grow in an economy in which the scarcity of labor has limited growth.



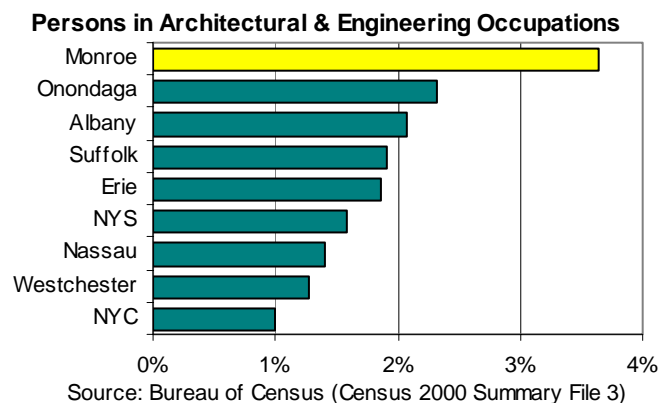
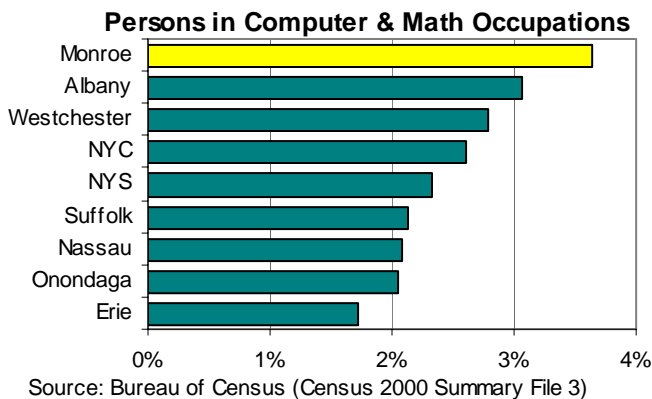
Rochester's Workforce

While dominated by manufacturing, Rochester occupational mix has been weighted toward professional and managerial occupations. Educational attainment has historically led competitive Upstate economies. Census 2000 reports that 31% of Monroe County residents aged 25 years and older have a bachelor's degree or higher.

High Technology and the Rochester Economy

Rochester firms employ an unusual number of workers in high technology industries. In 2000, about 15% of the Rochester workforce—earning 26% of total payroll—was employed in

industries classified as “high technology” by the U.S. Bureau of Labor Statistics. A high concentration of scientists and engineers is partly explained by the presence of a significant share of Kodak’s research and development facilities. Yet other firms have found Rochester a key location for high technology. Xerox, Delphi Energy & Chassis Systems, Harris RF



Communications and many other smaller firms employ thousands of engineers and scientists in the Rochester area.

More statistics from Census 2000 confirm the large concentration of Monroe County residents in technical occupations. Twenty-seven percent of employed county residents are in professional occupations. Monroe ranks highest among NYS urban counties in the share of workers in computer and math occupations and also in architectural and engineering occupations.

The most tangible evidence of Rochester’s “output” of scientific innovation is the number of patents issued to inventors living in the Rochester area. Over 7,200 patents were issued to Rochester inventors between 1995 and 1999, over four times the national average. Among the largest 100 metropolitan areas of the country, the number of patents issued per capita was second only to Silicon Valley’s San Jose. In addition, a study by the US Conference of Mayors found that Rochester ranked 20th in high-tech output among the 319 metro areas as defined by

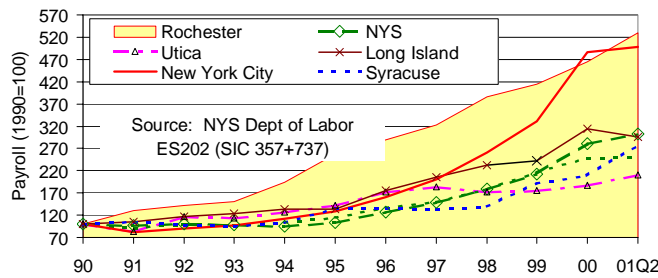
| Higher Education Impact: Rochester Metropolitan Area | |
|--|---------------|
| Total Enrollment 2002 | 75,642 |
| National Science Foundation Grants FY2002 | \$20,159,000 |
| National Institute of Health Grants FY2002 | \$139,173,422 |
| Faculty & Staff 2001 | 18,581 |
| Total Payroll 2001 | \$824,524,905 |
| Foreign Student Enrollment | 2,991 |
| Total Direct Impact of Foreign Students | \$81,646,300 |

Sources: NYS Department of Education, National Science Foundation, National Institutes of Health, NYS Department of Labor, National Association of International Educators, CGR

the U.S. Office of Management and Budget. Furthermore, high-tech’s share of total gross metro product equaled 31.9% in Rochester, significantly higher than Seattle, Boston, or Dallas.

The community also has a large and vital higher education sector. Seventeen colleges and universities located in the Finger Lakes region attract some of the brightest young minds in the country plus many from other nations. Each year the Rochester MSA grants nearly 10,000 college & university degrees—many in key areas of technology such as mathematics, engineering, the physical sciences, the biological sciences and computer and information systems. On a per capita basis, Rochester ranks near the top of the 60 largest metro areas in granting degrees in

Computer & Data Processing Services Payroll Growth '90-'01



many critical fields. Two world-class universities, the University of Rochester and Rochester Institute of Technology, support local industry and stimulate innovation in the community.

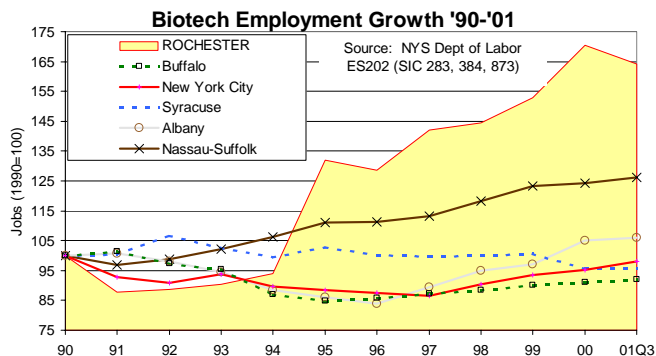
The higher education sector attracts a steady stream of young talent—including foreign students—to the community. Colleges and universities also bring additional resources to the community in

form of federal and state grants. During FY2002 the National Science Foundation and National Institutes of Health together sent nearly \$160 million to the Rochester area to support academic research.

The influence of the universities on the economy is reflected in Rochester's strong showing in key technology sectors, including computer & information services, telecommunications, health research-biotech-pharmaceuticals, medical and dental instruments & supplies, and printing & publishing. Both research universities are deeply committed to commercializing scientific discovery.

The successes of the University of Rochester Medical Center (URMC) have contributed to significant growth in health services employment. URMC has increased its regional market share and geographic reach in tertiary and quaternary care services, attracting clinical revenue from increasingly distant patients. As an example, URMC's live liver transplant program acquired additional patients after New York City's Mt. Sinai Medical Center was forced to close its program. Since 1996, URMC has expanded its research facility dramatically, garnering increased funding from the National Institutes of Health (NIH) plus drug testing business from worldwide pharmaceutical companies. NIH funding increased 19% in each of the previous two years, reaching \$122 million in fiscal year 2002. Royalties from licenses held by URMC reached \$42 million in FY 2002, vaulting U of R into the top ten of U.S. universities with respect to earned royalties.

Data processing service employment and payroll in the Rochester area has been growing more rapidly in Rochester than in any other part of New York State. Since 1980, payroll in the computer & data/information services cluster increased 18-fold from \$35.4 million in 1980 to \$630 million in 2000, three times the rate of the state as a whole (NYS Department of Labor). Employment has risen by 150% just since 1990, well above the rate of growth for the state, although comparable to that of the nation.

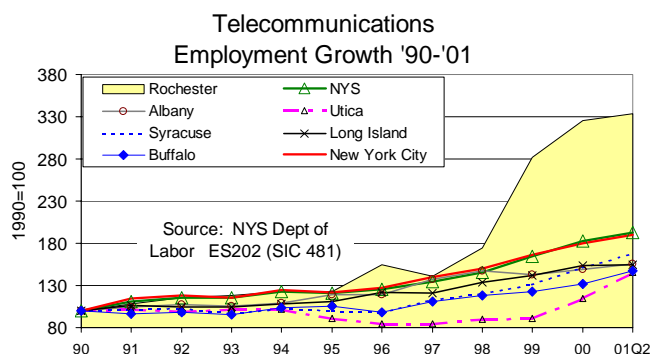


This cluster is receiving support from a new initiative at the Rochester Institute of Technology. A \$14 million contribution to RIT from Paychex founder Thomas Golisano established the B. Thomas Golisano College of Computing and Information Sciences. This complements the University's newly-established Information Technology Co-Laboratory.

The presence of Kodak, Xerox and Bausch

& Lomb in the Rochester region has spawned an independent photonics cluster (defined as printing & publishing plus photographic equipment & supplies). Rochester is responsible for one-third of New York State non-Kodak photonics employment.

Unlike most mid-sized cities, Rochester did not receive telephone service from AT&T or, subsequent to the AT&T break-up, one of the “Baby Bells.” Rochester Telephone historically provided local phone service to a large part of western New York. As the market became more



competitive after telecoms markets were deregulated, Rochester Telephone expanded aggressively by acquiring other local telephony providers and offering new telecoms services, changing its name to “Frontier” in recognition of its larger market reach. By the time Frontier merged with Global Crossing, an international provider of fiber optic network services, it had become a full-service provider of telecoms services including local telephony, long distance, wireless and data services. The

concentration of technical and management expertise created by Rochester Telephone and successor companies has created a “critical mass” of telecoms expertise in the Rochester area, spawning a significant cluster of telecoms providers.

Rochester employment in telecommunications services has held steady in the face of dramatic shrinkage nationwide. Even Global Crossing, despite its well-publicized difficulties, continues to employ nearly 700. Frontier, now part of Texas-based Citizens Communications, employs 2,300.

In addition, Rochester is home to two fiber optics cabling companies. Nationwide weakness in the telecommunications investment sector has not kept Fiber Technology and American Fiber Systems from continuing to acquire new customers. Corning maintains a presence in Rochester through its Corning Tropel division.

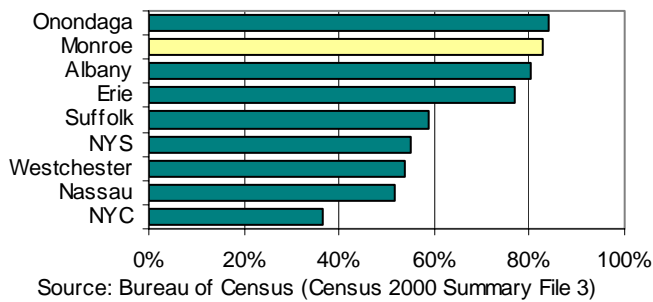
Telecommunications Infrastructure

The first telecommunications market in the nation to be deregulated, telecommunications in Rochester is evolving at Internet speed. Telecommunication options in Rochester are comparable to those available in any major US city. Many of the major telecommunications providers, including AT&T, Verizon, MCI-Worldcom, Sprint, and Time Warner, have a presence in Rochester. This diverse array of carriers provides connectivity to all the major national ATM backbones, local SONET rings, and offers a wide variety of services ranging from advanced switching from carriers like AT&T to inexpensive connectivity from carriers like Qwest. Smaller, fast-growing telecommunications companies such as PAETEC, Choice One and Mpower cater to small and medium-sized businesses. Cybertech Wireless and other companies offer wireless internet access at speeds ranging from 128kbps to 100Mbps. Internet connectivity over fiber optic cables is abundant for present and future community need.

Quality of Life

Rochester offers a quality of life that is unsurpassed in Upstate New York. Home to the Eastman School of Music, one of the world’s leading institutions, Rochester provides access to a tremendous diversity of visual and performing arts institutions and events. Among the nation’s

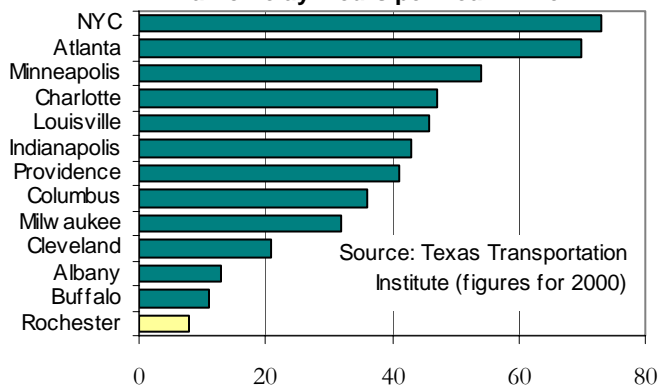
Travel to Work Less Than 30 Minutes



60 largest metro areas, Rochester ranks second in the number of visual and performing arts degrees conferred per capita, providing numerous opportunities for student and faculty recitals and the opportunity to participate in a large number of amateur performing groups.

Rochester is also home to professional sports teams in baseball, hockey, soccer, lacrosse and arena football. Amateur athletic opportunities are abundant. Four season outdoor recreation opportunities range from sailboat racing and deepwater fishing on Lake Ontario to camping, hunting and skiing in the Bristol Hills to windsurfing and boating on the Finger Lakes. Numerous Finger Lakes wineries boast wines that compete with the best in the world. The climate of the Finger Lakes is particularly well-suited to white wine production.

Traffic Delay: Hours per Peak Driver



Texas Transportation Institute reports that “Annual Delay per Driver” in Rochester was only eight hours per peak road traveler in 2000. This is only one quarter of the congestion experienced by Milwaukee residents; one fifth of Indianapolis and one ninth of the time spent by NYC residents.

The region’s assets are all within easy reach on a well-maintained, uncongested highway system. The

Finally, Rochester is an affordable city. A wide variety of urban and suburban neighborhoods offer an array of housing options at reasonable prices. The National Association of Realtors reports that the median home price in the second quarter of 2003 was \$98,200. In fact, during the second quarter of 2003, Rochester ranked 11 out of 124 metro areas in single family home affordability.

Western New York’s major cities owe their present size to their location and transportation facilities. While the Erie Canal no longer has commercial importance, Rochester and Buffalo still provide access to the best transportation networks in the world. In addition to scheduled flights by many major carriers, the Western New York market recently attracted four discount carriers including AirTran and jetBlue.

National, State & Local Trends in Health Care Costs

Health care price inflation has returned vigorously after a brief hiatus. Between 1988 and 1992, National Medicaid costs grew over 20% each year, then fell to about 10% between 1992 and 1995. Supported by declines in Medicaid enrollment, aggregate costs remained moderate in subsequent years. The number of Medicaid eligibles in Monroe County fell 6% between 1997 and 2001. Nationally, Medicaid cost growth slowed to the rate of general price inflation in 1996, about 2.3%.

Federal outlays for Medicaid grew by 13.2% in 2002, marking the sixth consecutive year that spending growth in the program has accelerated. The 2002 increase resulted from a combination of rising enrollment and increases in spending per eligible recipient. From 1997 to December 2001 (the latest month expenditure data are available), Monroe County cost per recipient grew nearly 40%. In a softening economy, the number of eligibles increased 6% from March 2001 to March 2002 then by an additional 13% by March 2003. Total county cost is likely to accelerate even more quickly (NYS Department of Health).

The Congressional Budget Office (CBO) forecast in January 2003 that Medicaid spending growth would slow to 6% this year. In the longer term, however, higher prices, increased consumption of services and, to a lesser extent, increased enrollment will continue to drive up Medicaid's costs. Over the next decade, the CBO projects federal outlays for Medicaid to grow at an average rate of 9% per year.

Increasing prescription drug and long-term care costs—a result of the introduction of new drugs, aggressive marketing by pharmaceutical companies and the aging of the population—drives cost increases nationwide. Prime Institute for Families USA predicts that prescription drug costs per senior will more than double during the first decade of the new century. Medicaid will feel a portion of this impact, although the local share of institutional long term care expenditures is lower than for other Medicaid costs. Overall, the cost of medical services has risen 54% between 1992 and 2002 while the overall rate of price inflation has been 28% through the same period (U.S. Department of Commerce). The Centers for Medicare and Medicaid Services reports that drug prices rose at an average annual rate of 13.1% from 1994-2000, then at nearly 16% in 2001.

The recent impact of these trends on private health insurance premiums has been documented by the Seventh Annual Survey on Purchasing Value in Health Care conducted jointly by Watson Wyatt Worldwide and the Washington Business Group on Health. Overall, health care costs rose 14.3% in 2002, up from 10.3% in 2001, and 9.7% in 2000. In contrast, the Consumer Price Index grew by only 1.6% during 2002, 2.8% in 2001 and 3.4% in 2000.

Economic Trends & Implications for Sales Tax Collections

After declining by almost two percent in nominal terms in 2001, sales tax revenue in Monroe County is showing signs of a recovery, posting an increase of two percent between 2001 and 2002.

Between 1994 and 2002, total sales tax collections increased almost 23%. This can largely be attributed to increased prosperity in the community as Center for Governmental Research estimates payroll grew about 26% during the same period. Sales tax collections as a share of payroll fell slightly over the period as consumer purchases continues to shift from products to services, which are not as broadly taxed. In line with a phenomenon that has been observed in the U.S. since 1979, an academic study released in 2000 estimated that New York sales tax collections would decline at least 1.9% as a share of personal income between 1996 and 2003 (Source: Bruce, D. & W. Fox, 2000, "E-Commerce in the Context of Declining State Sales Tax Bases", University of Tennessee).

Continued expansion of "remote sales," which includes sales by catalog, telephone and Internet, will likely reduce the rate of increase in sales tax collections as well. While remote sales are technically subject to taxation, the vendor is not obligated to collect sales and use taxes on behalf of states in which they lack "nexus," determined by whether the firm has a physical presence in the state. Few taxpayers voluntarily pay sales taxes when an out-of-state vendor

does not collect the tax on the behalf of states and localities. In fact, sales taxes are an incentive to use a tax-free remote sales channel. A recent study found that for every percentage increase in the sales tax rate, the odds that a consumer would make a purchase online increased by one-half of one percent (Source: Goolsbee, A. & J. Zittrain, 1999, "Evaluating the Costs and Benefits of Taxing Internet Commerce", as cited by Bruce & Fox).

The General Accounting Office released a study in June 2000 (GAO/GGD/OCE-00-165) that explores the potential impact of remote sales and e-commerce on sales tax collections. For the year 2000, GAO's estimates for New York State sales tax losses range from a low of 0.3% of potential sales tax revenue to a high of 4.3%. Applied to Monroe County, these estimates suggest a year 2000 loss of revenue to e-commerce of between \$700,000 and \$11 million.

The growth of e-commerce is likely to remain rapid at least during the next few years, particularly as the spread of broadband Internet opens new opportunities for e-tailers. However, as is the case with most new technology, forecasting the future of Internet retailing is more of an art than science. Yet, simply because the future of e-tailing is cloudy at the moment is not a reason to ignore the potential implications. The most complete studies indicate that New York State could lose between \$81 million and \$1.2 billion to e-commerce by 2003. The same trend would imply losses to Monroe County of between \$2.5 million and \$36 million. The wide range in the estimates is a result of the uncertainty in the future of the industry.

The risks for Monroe County are difficult to quantify and the magnitudes discussed above are speculative. Nonetheless, recent trends suggest that continued growth in sales tax collections is not assured. While economic growth is likely to increase total personal income, the shift toward hard-to-tax remote sales channels and a further movement toward less-broadly taxed service purchases will siphon off a portion of anticipated new revenue.

An Overview of the Area's Real Estate Market

Rochester's downtown office market staged a comeback in the 1990s although recent trends have indicated a softening of the market. Starting in the early 1970s, the suburbs became the first choice for business relocation with their lower rents and ample amounts of developable space. As a result, downtown buildings have struggled to fill space. A number of building projects during the 1990s—private projects such as Clinton Square, Frontier Telephone, Bausch & Lomb World Headquarters, and Excellus plus a number of public investments such as a new courthouse and library, Frontier Field and a public safety building under construction—marked the rebirth of downtown. Within the last couple of years, high tech companies looking for "wired" space with more open floor plans are finding rehabilitated manufacturing buildings attractive. "Urban chic" buildings also come with an attractive price tag. Class A rents range from \$14-\$24 per square foot downtown versus \$18 or more in the suburbs. Class A vacancy rates for downtown rose slightly to 14.9% from year-end 2001 to year-end 2002 (CB Richard Ellis). The suburban vacancy rate rose sharply, however, 17.5% at the end of 2002.

The center of downtown has been the last to rebound. The rehabilitation of the nation's first enclosed shopping mall, Midtown Plaza, has been held up by the financial troubles of its California owner. Now that the building has passed to new management, public and private plans for its revival are moving ahead. Another major building, Gateway Centre, was left empty as its principal tenant built a new headquarters a few blocks south. However, bookending the central district are a number of vibrant areas. Downtown's premier buildings are nearly full with Clinton Square below 10% vacancy, Chase Tower at 8% and Bausch & Lomb Place at only 4%. At the other extreme is the Main & Clinton area: Midtown plaza is more than half empty and Sibley Centre is just under ¾ full (Rochester Business Journal).

Monroe County's Future

With Rochester emerging as the region's economic leader, Western New York offers established firms and entrepreneurs unique value as a corporate location. A strong industrial history and an emphasis on high quality public services—particularly public education—plus an unusually large higher education sector ensures a technically-sophisticated & reliable workforce. Shrinkage of the region's numerous old economy employers, engines of growth for the national economy in the late 19th and early 20th centuries, has dampened wage and salary inflation and depressed asset values. New firms can take advantage of the region's workforce while enjoying low labor, land, and building costs, including low housing costs for key personnel.

The restructuring of the U.S. economy during the 1980s and early 1990s depressed growth below that of many international competitors but laid the groundwork for the productivity boom that has reasserted the position of the U.S. as the leader of the world's economy. Western NY has undergone a similar period of painful restructuring, but is now poised to move aggressively into the new economy.

Rochester is particularly well positioned to lead Western New York's resurgence. While the Buffalo area's population still exceeds that of the Rochester MSA, Rochester's economy is more robust than that of its western neighbor. Total personal income of the Rochester MSA surpassed that of Buffalo in 1997; total employment pulled even with Buffalo's in mid 2000. The Flower City's emphasis on technology and the strong showing of its academic institutions in key areas like mathematics, engineering, physical sciences and biological sciences make it the natural economic leader of the region.

Kodak has left Rochester a lasting legacy in its emphasis on manufacturing excellence and strong R&D. Rochester's casual absorption of more than 40,000 Kodak jobs over the past twenty years demonstrates the dynamism of the economy. Firms once dependent on Kodak have expanded their markets throughout the world and grown in consequence. Former employees of the film giant have found new outlets for their skills and experience, lending their experience to small and medium sized firms across the economy. While Kodak is no longer at the center of Rochester's economy—it now provides only four percent of the community's jobs—it continues to contribute significant income plus essential community leadership. As its relationship with Kodak has matured, Rochester's economy has come of age.

Rochester's Economic Outlook

Despite a strong showing during the 1990s, recent economic performance has been disappointing. Total nonfarm employment peaked in August 2000 at 558,600 but finished July 2003 at about 524,078. In the year ending July 2003, Rochester manufacturing lost 8,685 jobs, many at Kodak and Xerox. Because many of the sectors hit hardest by the national downturn have been conspicuous sources of strength for the regional economy, near-term expectations are for a relatively slow recovery. Business service employment growth, for example, has been heavily dependent on manufacturing firms outside Rochester. Rochester also benefited from growth in information technology and telecommunications in the late 1990s; both industries have suffered dramatic losses in employment during the past two years following the collapse of the dot com and telecom bubbles. Despite these challenges, the prospects for the economy's long-term vitality remain bright.

- ❖ Rochester remains a community deeply invested in high technology manufacturing. While Kodak, Xerox and General Motors suppliers have weaned themselves from reliance on single customers, they remain strongly tied to the national and international manufacturing sector. Yet

the current recession began at a national level in the manufacturing sector during 2000. Industrial production began falling in late 2000 and continued declining through early 2003. Orders for technology manufacturing only began increasing in early summer 2003. Industrial production statistics also showed signs of life by late summer.

- ❖ The economy's business services sector is closely tied into the region's small and medium sized manufacturing firms. As orders to manufacturers declined, business service employment also fell. After years of steady growth, business services employment declined for the first time in 2001. While this sector continued to shrink slowly in 2002, employment began to rebound in mid-summer, reflecting related growth in manufacturing.
- ❖ The bursting of the telecom "bubble" took away a significant source of employment growth in Rochester. While communications employment is still above the average for 2000, more than 1000 jobs added in 2001 were lost. A glut of bandwidth is expected to hinder growth prospects for this industry for the next few years. Rochester's deep investment in both telecom services and telecom equipment will bear fruit when growth resumes in this quintessential 21st century sector.
- ❖ Following the Y2K buildup and the decline of the dotcoms, information technology professionals suddenly found the seller's market had become a buyer's market. Rochester's prodigious IT growth has slowed as a consequence. As with telecom, the skills so abundant among Monroe County's IT sector will be in demand again as the economy recovers and investment in new IT infrastructure resumes.

In summary, the economy is likely to continue to languish during the next couple of years. Yet having made a successful transition from excessive dependence on Kodak and established a robust presence in key 21st century industries, e.g. biotechnology, telecommunications, higher education, photonics and information technology, the medium and long term growth potential for Rochester remains very strong.

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COUNTY EXECUTIVE

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DEPUTY COUNTY EXECUTIVE

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Howard R. Relin

PUBLIC DEFENDER

Edward J. Nowak

SHERIFF

Patrick O'Flynn

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| COUNTY CLERK | Maggie Brooks, County Clerk |
| DISTRICT ATTORNEY | Howard R. Relin, District Attorney |
| ENVIRONMENTAL SERVICES | John E. Graham, Director |
| FINANCE | Gerald J. Mecca, Chief Financial Officer |
| DEPARTMENT OF HUMAN AND HEALTH SERVICES | Sherri E. Wood, Acting Director |
| HUMAN RESOURCES | Elizabeth H. Riley, Director |
| INFORMATION SERVICES | Loren M. Bortree, C.D.P., Director |
| LAW | Charles S. Turner, County Attorney |
| MONROE COMMUNITY HOSPITAL | Todd M. Spring, Acting Executive Health Director |
| PARKS | Frank X. Allkofer, Director |
| PLANNING & DEVELOPMENT | Paul A. Johnson, Acting Director |
| PUBLIC DEFENDER | Edward J. Nowak, Public Defender |
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We welcome your comments and suggestions about this budget document.

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